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USAID-TIJARA PROVINCIAL ECONOMIC GROWTH PROGRAM

REPORT ON MOBILE BANKING PILOT INITIATIVE FOR MICROFINANCE SERVICES DELIVERY IN IRAQ



(July, 2011)

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The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

CONTENTS

1. INTRODUCTION:	1
2. MOBILE BANKING (MB) IN MICROFINANCE:.....	1
3. CHALLENGE OF OUTREACH AND NEED FOR ALTERNATIVE SERVICE DELIVERY CHANNELS IN IRAQI MICROFINANCE SECTOR:.....	2
4. PILOT INITIATIVE ON MOBILE BANKING FOR MICROFINANCE SERVICE DELIVERY BY IRAQI MFIS:.....	3
5. OBJECTIVES OF THE PILOT INITIATIVE:.....	3
6. ENVISIONED BENEFITS FOR IRAQI MFIS FROM MOBILE BANKING:.....	3
7. STAKEHOLDERS INVOLVED IN THE PILOT INITIATIVE:	4
8. PROCESS ADOPTED FOR THE PILOT INITIATIVE:.....	5
8.1. CONSULTATIVE MEETINGS:	6
8.1.1. Mobile banking service for mfis – disbursements:	7
8.1.2. Mobile banking service for mf clients – repayments:	7
8.2. TRAINING ON MOBILE BANKING:.....	8
8.3. ROLLING OUT THE PILOT INITIATIVE ON MOBILE BANKING:.....	9
8.3.1. Loan disbursement to the selected clients by al-bashaer:	9
8.3.2. Loan repayment by clients to the mfi: al-bashaer:	11
8.4. FEEDBACK SO FAR ON THE MOBILE BANKING PILOT INITIATIVE:	11
8.5. WAY FORWARD AND RECOMMENDATIONS:.....	12

ACRONYMS

AES:	Amwal Electronic Service
BOB:	Bank of Baghdad
CGAP	Consultative Group to Assist The Poorest
DOD	Department of Defense
GOI	Government of Iraq
IBS:	Internet Banking System
ICT:	Information Communications Technology
IMFI:	Iraqi Microfinance Institutions
LO:	Loan Officer
LPF	Loan Performer Software
LS:	Loan Supervisor
MB	Mobile Banking
MF	Microfinance
MFI	Microfinance Institution
MIX	Microfinance Information Exchange
MNO:	Mobile Network Operator
MoU:	Memorandum Of Understanding
MTR:	Mid-Term Review
PAR:	Portfolio At Risk
USAID	United States Agency for International Development

1. INTRODUCTION:

Reaching out to a vast majority of poor clients through cost effective service delivery mechanism has been one of the key challenges faced by the microfinance fraternity across the globe. Many of them, especially the microfinance institutions (MFIs) are still found to be grappling with the issues of scale and sustainability in their operations. As such many MFIs have been constantly experimenting with various alternative service delivery channels to reduce costs, facilitate greater outreach to hard-to-reach areas, and increase customer convenience and thereby achieve both scale as well as sustainability in the program. Considered as a great innovation of the recent times, mobile banking (MB) has, indeed, been one of the potential service delivery channels for service providers to reach out larger numbers of their customers in a very cost-effective manner.

Mobile banking (MB) is a system of providing service to a customer to carry out transactions on the "Mobile Phone" through the designated Mobile Network Operators (MNOs). For financial institutions, it has been an easy service that enables banks or service providers to make available, the facility of banking, wherever the customer is and whenever s/he needs. MB also enables the customer to carry out the banking transactions on her/his mobile phone through short messages. Various types of transactions available in MB are balance enquiry, costs transactions, cheque book request, bill payment, change of primary account, and other helps. Major benefits of MB to customer are time saving, convenience, transaction alerts, payment of utility bills and plan etc. As of now Banks have been making use of this channel in an increased scale to render their services for a large number of customers.

2. MOBILE BANKING (MB) IN MICROFINANCE:

Of late MFIs in many countries have started trying to adopt this innovation in delivering their financial services to clients and for that they collaborate with the cellular service providers. One of the core objectives for them has been to reach larger number of clients, even staying in remote places at a lower cost than any existing delivery channels. This collaboration between the financial and telecom sectors is an ideal solution for microfinance because 'there are about 1 billion people across Asia, Africa and Latin America who do not have a bank account but do have a cell phone'¹. Mobile phones in these countries have become tools for economic empowerment for poor. These phones compensate for inadequate infrastructures, such as bad roads and slow postal services. They allow information to move more quickly and freely, removing market barriers and unleashing entrepreneurship. Mobile money services, which allow cash to travel as quickly as a text message, create opportunities for small mobile retailers to act as micro bank branches while increasing access to financial services for the poor, women, and those who live in remote rural areas.

While the above experiences have been quite satisfactory in some of the countries, for others it is still a great challenge to apply mobile banking as one of the "user-friendly" and "cost effective" mechanism for them to deliver their financial services for the clients. Among the few reasonably successful initiatives, mention may be made of the following countries;

¹ CGAP-Microfinance & Mobile Banking-The Story So Far

- **Kenya** (mobile banking through Safaricom's M-Pesa)
- **Brazil** (mobile banking through Banco de Brasil)
- **India** (mobile banking through FINO's MITRA)
- **Pakistan** (mobile banking through Telenor's Easy Paisa)
- **Philippines** (mobile banking through Smart Telecom's SmartMoney), and
- **South Africa** (mobile banking through South African Bank of Athens' Wizzit).

Well developed mobile network, vibrant economy, enabling legal framework, back up supports from the apex bodies together with the underlying features of the service such as convenient, flexibility, affordability and proximity to the poor are said to be the key factors for the success of mobile banking services for any institution or country.

3. CHALLENGE OF OUTREACH AND NEED FOR ALTERNATIVE SERVICE DELIVERY CHANNELS IN IRAQI MICROFINANCE SECTOR:

Microfinance in Iraq has made a significant progress since its inception. Started in 2003 with Donors' supports and Government patronage, the microfinance sector in the country took measures to plan and offer MF services to the vulnerable population in different provinces, mainly through the new generation of Microfinance Institutions (MFI). Currently there are 12 MFIs operating in the country. Supported mainly by USAID-Tijara project, these MFIs make their concerted efforts to provide the need based financial service-credit supports to clients for taking up various business activities. Despite many challenges, the MFIs collectively have disbursed 257,209 loans cumulative, valued at \$ 592.7 million and current outstanding portfolio \$106.4 million reaching 75,162 micro, small and medium entrepreneurs by the end of 2010. The industry enjoys 99% repayment rate and the Portfolio at Risk (PAR) >30 days of less than 1%².

However, in spite of this phenomenal growth, a few challenges still remain in the sector. The sector has yet to fully address the issues of scale and depth in the country. Regional skew in terms of program coverage has been very much felt. In view of that perhaps, the microfinance sector needs to accelerate its growth by up-scaling the current operations to reach out the un-reached eligible clients in Iraq. . For a balanced and organized growth of the sector, greater focus is required in supporting these institutions on the inflection point of growth. Adopting an alternative service delivery mechanism like *Mobile Banking* together with regular flow of funds, specifically for on-lending, are considered to be the key determinants to achieve the planned growth.

² State of Iraqi Microfinance Industry Report, June-2011

4. PILOT INITIATIVE ON MOBILE BANKING FOR MICROFINANCE SERVICE DELIVERY BY IRAQI MFIS:

Mobile banking is relatively new in Iraq and has thus far been a 'mainstream' activity led by Amwal Electronic Banking Services, an Iraqi limited liability company founded in 2008 with 16 shareholder banks. In June 2010, Amwal entered into a partnership with one of two largest mobile network operators (MNOs), Asia Cell and two commercial banks in Iraq and formally launched MobiCash. This is a mobile banking platform enabling the ability to directly purchase airtime, buy goods and services from registered merchants, check bank account balances, and make mobile-to-mobile and bank account-to-bank account money transfers. Despite being a security challenged country, Iraq is ahead of others with the existence of the aforementioned m-banking platform that can be further leveraged by 12 Iraqi MFIs partners of USAID-*Tijara*.

USAID-*Tijara* always supported progressive and forward looking microfinance institutions to adopt cutting-edge technologies to increase outreach, serve disadvantaged client segments, and improve operational and financial sustainability. With a view to overcome the constraints of outreach in the sector, it decided to extend process supports for its MFI partners to apply the Mobile Banking system while reaching to an increased number of clients through their MF services. As such, it was planned to have a pilot initiative on mobile-banking in the operational areas of Al-Bashaer, one of the 12 MFIs, which has got its program in Baghdad.

5. OBJECTIVES OF THE PILOT INITIATIVE:

The pilot on mobile-banking in Iraqi microfinance was taken up mainly with the following objectives;

- To assess the feasibility of mobile-banking system in Iraqi microfinance before rolling it out as one of the service delivery channels for achieving greater access to finance by poor in a cost effective manner.
- To enhance the understanding of Iraqi MFIs on various procedures and technicalities involved in mobile banking through training and pilot implementation ahead of applying that in their organizations
- To draw out "lessons learnt" from this pilot implementation and plan for scaling-up across the country, if the mobile-banking system turned out to be feasible for the MFIs in Iraq.

6. ENVISIONED BENEFITS FOR IRAQI MFIS FROM MOBILE BANKING:

The envisioned benefits of employing mobile-banking to serve the Iraqi MFI included:

- Reduced operational costs for the individual microfinance institutions (MFIs) through:
- Reduced direct transaction costs (fees).
- Reduced indirect transaction costs overall: i.e. check writing, deposit handling (checks or cash), reconciliation, etc.
- Improved cash flow: No float time waiting for repayment checks to clear.
- Improved on-time repayments: Based on ease of repayment versus currently available options.
- Expanded outreach to currently underserved areas.
- Altogether five types of transaction opportunities such as Loan Disbursement, Loan Repayment, Bank Account Opening, Cash Deposit and Cash Withdrawal etc were proposed to be facilitated gradually for the MFIs and their Clients through mobile-banking system.

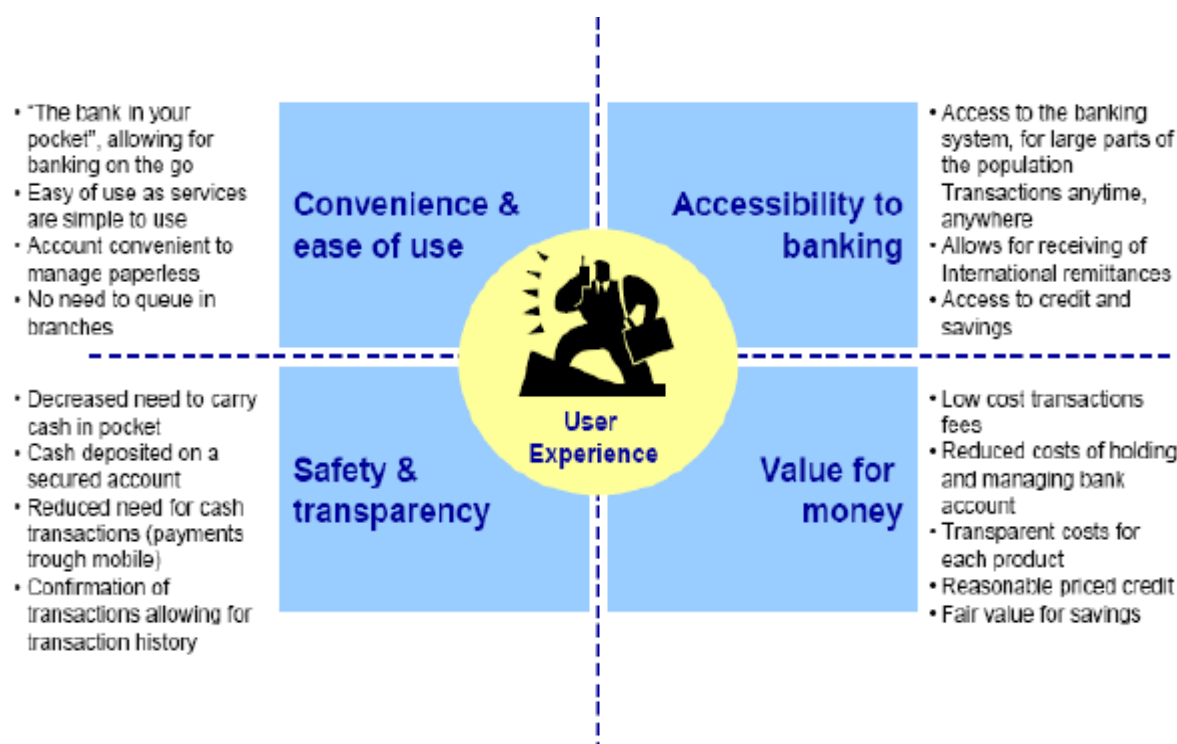


Figure 1: Anticipated Benefits to Mobile Banking Clients

7. STAKEHOLDERS INVOLVED IN THE PILOT INITIATIVE:

The pilot initiative on mobile-banking was a collective effort of many stakeholders. Coordinated by the USAID- *Tijara* and USDD Task Force for Banking & Finance Network and implemented by Al-Bashaer there were additionally five stakeholders involved in the process and contributed for the piloting. These stakeholders were grouped mainly in following three categories:

CUSTOMER GROUP	SERVICE PROVIDERS	FACILITATORS
MFI: AL-BASHAER MF CLIENTS (20)	BANK: BANK OF BAGHDAD AMWAL ELECTRONIC SERVICES ASIACELL	USAID-TIJARA

However, for the operational point of view the following institutional arrangement was agreed to carry out the selected initial transactions like Loan Disbursement by the MFI and Loan Repayments by the Clients through the mobile-banking channel.

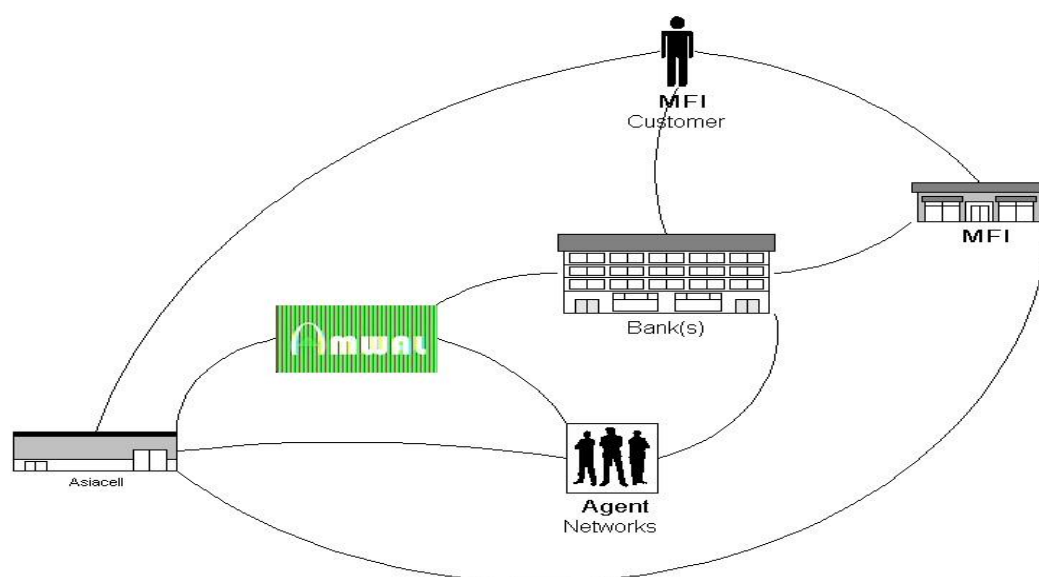


Figure 2: Institutional Relationships in the Mobile Banking Pilot

8. PROCESS ADOPTED FOR THE PILOT INITIATIVE:

Started from September, 2010 and continued until now, the process for the Pilot Initiative on mobile-banking witnessed a series of activities which were undertaken to accomplish the desired objectives. A number of consultative meetings took place among the stakeholders to explore a common strategy to ground mobile-banking as a new service delivery mechanism for microfinance. Roles and responsibilities of different institutions were worked out. Amwal conducted a formal training for the staffs of the MFI to help them better understand the technology and the procedures involved in mobile-banking. Assumptions, concerns and queries were raised especially by the implementing MFI which got clarified by the respective stakeholders in different forums. A cost-benefit analysis on loan disbursement by the MFI and repayment of that by Clients were also made together with the MFI to cross check the

time and cost reduction by applying the mobile-banking system. As part of the process the following key activities were undertaken during the pilot phase.

8.1. CONSULTATIVE MEETINGS:

- USAID-*Tijara* Mobile Banking Working Group and the USDoD Task Force of the Iraqi Banking Consortium on 2nd September 2010 for Creating Synergies between USAID-*Tijara* Mobile Banking Working Group and the Task Force of the Iraqi Banking Consortium:

The meeting was convened to explore possible areas of cooperation between the USAID-*Tijara* Mobile Banking Group and the Task Force of the Iraqi Banking Consortium, an arm of the Department of Defense (DOD) in the development of mobile banking in Iraq. Besides deliberating on the potential sceneries, discussions were also held on various possibilities to support Iraqi MFIs in adopting the mobile-banking as one of the service delivery channel to reach more clients and reduce cost in the process. Linking microfinance clients with the formal financial institutions or Banks was also identified as another possible outcome of mobile-banking initiative.

- Meeting between Al-Bashaer and USAID-Tijara team: held at USAID-Tijara Business Center on 19th October, 2010 to discuss the Scope of Mobile Banking Pilot & Conduct Cost Benefit Analysis:

SMFC along with ICT had a meeting today with Al-Bashaer on piloting use of the electronic and mobile-banking services. During the meeting, SMFC provided an overview of mobile banking and its benefit towards reducing costs and scaling-up outreach. With close to 80% of the microfinance target clientele using mobiles, the opportunity was perceived to be tremendous. SMFC along with ICT discussed the cost benefit analysis of mobile banking for loan disbursements and repayments using real current costs collected from Al-Bashaer. (Cost-Benefit of mobile-banking for MFI-Attached in Annex-1)

- Meeting with MFI Partner Al-Bashaer's Loan Supervisors and Officers to Discuss Mobile Banking Pilot and Their Concerns on 2nd November, 2010 to explain the scope of the envisaged pilot and answer queries/concerns raised by them.

As part of the ongoing dialogue with Al-Bashaer on the potential and benefits of mobile banking for financial inclusion, SMFC held its second formal meeting with Al-Bashaer's Loan Supervisors (LS) and Loan Officers (LO) to explain the scope of the envisaged pilot and answer queries/concerns raised by them. SMFC explained the two scenarios for operationalizing the pilot on mobile-banking with a selected group of Clients. SMFC went over the cost-benefit analysis again and explained the reduction in time and cost for Al-Bashaer during disbursement as well as repayment. SMFC explained that the time of Loan Supervisors and Loan Officers was further freed-up so that they could focus on developing livelihood linkages and other value-additions for their clients in order to achieve optimal social impact of the loans disbursed by Al-Bashaer. Also the queries raised by the MFI mainly related to the message sent/receipts, loan disbursed/received, cost sharing along with other terms and conditions for the stakeholders were collected and later disseminated to the service providers.

- Mobile Banking for Financial Inclusion: First Technical Meeting among all Pilot Stakeholders: Al-Bashaer (MFI), Bank of Baghdad, Amwal Electronic Services, USAID-Tijara & US DoD Taskforce for Banking & Finance Network on 13th November, 2010

USAID-*Tijara* Sustainable Microfinance Component together with *US DoD* hosted the 1st technical meeting on '*Mobile Banking for Financial Inclusion*' for the above mentioned stakeholders. The center piece of the discussion was related to microfinance clients and the benefits of mobile-banking for them & the MFI. The following two possible scenarios were debated and it was left for Al-Bashaer to select one for rolling out the pilot initiative.

8.1.1. MOBILE BANKING SERVICE FOR MFIS – DISBURSEMENTS:

In this scenario only Al-Bashaer was supposed to be signed-up for mobile banking (including e-banking) to pilot-test with a group of selected clients (20 clients). Al-Bashaer with technical support from USAID-*Tijara* had already conducted a cost-benefit analysis of mobile banking vis-à-vis conventional method, with substantial time and cost reduction for the MFI. In addition, it was expected that the time of Loan Supervisors (LS) and Loan Officers (LO) would further free-up so that they could focus on developing livelihood linkages and other value-additions for their clients in order to achieve optimal social impact of the loans disbursed by Al-Bashaer. Within this scenario, the clients in the pilot phase were not supposed to have Asia Cell service or a bank account with the Bank of Baghdad.

- **Loan Contract:** As the client in mobile-banking would receive a mobile message informing him/her of loan approval, after which the client would proceed directly to the bank to retrieve the loan amount based on the mobile message, there was no scope for signing the loan contract before that. Al-Bashaer was concerned about how it would hold its client accountable to repaying the loan without a contract. During the meeting, the following solution was agreed-upon;
 - Al-Bashaer could introduce a clause in the loan contract stating that the client is responsible for repayment only after retrieving the approved loan from Bank of Baghdad branch.
 - The client would come to the MFI branch to sign the contract, after which Al-Bashaer would enter the mobile-banking transaction.
 - Bank of Baghdad would record released funds to the clients in their bank statements to the MFI to prove that the funds were released to the clients, hence holding the clients accountable for repayment.
- **Repayments:** Through Al-Bashaer's on-line account with Bank of Baghdad, the MFI could check the status of clients' repayments. This would save the MFI the costs of visiting BoB branches to check the repayment status on clients at least three times per week and to print bank statements.
- **Undelivered Mobile Banking Transaction Messages:** Amwal clarified that along with Asia Cell, it would maintain/track all undelivered messages in a server. Amwal and Asia Cell had pre-agreed arrangements to bear this cost, and all undelivered messages would be re-sent, and until a message transmission was completed. Further to it Amwal clarified the fact that in view of the occasional technical glitches and the developing mobile-banking scenario in Iraq, the success rate had never been 100% but it was close to that.

8.1.2. MOBILE BANKING SERVICE FOR MF CLIENTS – REPAYMENTS:

In the 2nd scenario where along with Al-Bashaer, the pilot clients (20 clients as mentioned above) also were supposed to be signed-up for mobile banking services. Having the Asia Cell service as well as a bank account with Bank of Baghdad was mandatory in this scenario. Depending on whether the clients' availability of funds in the account, he/she could use mobile banking to repay the loan installments to Al-Bashaer. One of the ripple effects of this scenario was Access to deposit services at Bank of Baghdad for the clients (if

the clients had no bank account before this). Al-Bashaer's mandate of enabling a diverse range of financial services (savings) for the poor was expected to be achieved within this scenario (albeit indirect service).

- **Minimum Balance in Bank Account:** Bank of Baghdad could not answer the question of whether clients would be required to maintain a minimum balance. If required, USAID-Tijara would work-out with Bank of Baghdad shareholders/senior management to introduce zero-balance bank accounts for the Al-Bashaer microfinance clients. Based on potential transaction volume among those clients, Bank of Baghdad might introduce it nationally as part of its mandate to facilitate financial inclusion.
- Meeting between Al-Bashaer & Bank of Baghdad-Mobicash teams held on 4th May, 2011- to discuss on activating the mobicash service for clients interested for opening accounts in BoB.

8.2. TRAINING ON MOBILE BANKING:

The mobile-banking concept was quite new for the MFI and its staffs, so it was decided to have a detailed training program on that for the staffs. Accordingly Amwal Electronic Banking Services conducted a training program for Al-Bashaer-its field staff on that. The purpose of the meeting was to introduce the participants on the technical and operational aspects of the mobile- banking services delivery method facilitated by the company. The following participants from the MFI along with one representative from USAID-Tijara project attended the training program. The training and its inputs helped the staffs of the MFI to better understand the procedures and processes involved in implementing the mobile-banking system. They were also advised to educate the clients on that after the training program.

Date: 15 December, 2010

Venue: USAID- *Tijara* Business Center

List of Participants

Name of the Participant	Designation	Organization
Mohammed Haleem	MFI Program Coordinator	USAID-Tijara
Basim N. Jasem	Administration and Internal Audit Manager	Al-Bashaer
Ali Hussein Kadhim	Al-Hussainya branch Supervisor	Al-Bashaer
Raed Nasir Husein	Al-Karkh branch Supervisor	Al-Bashaer
Mustafa Salih	Adhmiya branch Supervisor	Al-Bashaer
Ali Hameed Aziz	Taji branch Supervisor	Al-Bashaer
Ali Salih Mehdi	Kadhimiya branch Supervisor	Al-Bashaer
Ayad Salim Mehdi	Mahmodiya branch Supervisor	Al-Bashaer

Salem Saddam	Sader City branch Supervisor	Al-Bashaer
Mohammad Taha	Trainer	Amwal Electronic Banking Company

8.3. ROLLING OUT THE PILOT INITIATIVE ON MOBILE BANKING:

Having participated in all the deliberations and the above training program, Al-Bashaer agreed to pilot the mobile-banking in its organization. The MFI opted for Scenario-1 and signed an MoU with Amwal and Bank of Baghdad to pilot the mobile banking for its clients throughout Baghdad. As a step forward, the MFI selected a group of clients for making the initial transactions-loan disbursement for them and collect repayments. The pilot clients were selected mainly from among the clients who had finished their previous loan cycles and were waiting for the new loans, because of two reasons:

- Old clients were already loyal to Al-Bashaer and expected to be cooperative;
- It would give a full cycle period for Al-Bashaer- starting from the process of loan disbursement until repayments, to assess the value and impact of mobile banking during the pilot.

The Bank of Baghdad too agreed to start opening of 'Savings' or Deposit accounts for interested clients to facilitate the process for mobile-banking as well as to diversify the financial products for the poor.

8.3.1. LOAN DISBURSEMENT TO THE SELECTED CLIENTS BY AL-BASHAER:

As it was agreed to start the transactions through mobile-banking especially loan disbursement, Al-Bashaer took the necessary steps on processing the loans for the selected clients. While adopting most of its traditional loan processing measures, the MFI took a few additional steps that were required by the Bank. The table below represents the comparative processes which the MFI had to complete to disburse the loans through mobile-banking system and traditional method in close coordination with other stakeholders.

Disbursement through Traditional Method	Disbursement through Mobile Banking
1 – Loan application completed by LO 2 – Issuance of letter to the clients to get the notarized guarantee letter from the court. 3 – Completed application along with guarantee letter is submitted to the main office for approval from the credit committee after careful review from the loan supervisor 4 – Credit committee reviews and approves the loan application. 5 – Application is processed and loan contract and borrower ledger card is prepared and signed by the client. Disbursement is made through cheque.	1 – Loan application completed by LO. 2 - Issuance of letter to the clients to get the notarized guarantee letter from the court. 3 - Completed application along with guarantee letter is submitted to the main office for approval from the credit committee after careful review from the loan supervisor 4 - Credit committee reviews and approves the loan application. 5 – The MFI advises the bank to open the bank accounts of the intending clients (willing to be part of Mobicash) 5 – Al Bashaer asks the client to open a bank account

6 – The client receives the loan amount from the nearest bank branch.	<p>in the designated branches of Bank of Baghdad.</p> <p>6 – The client opens a bank account and sends the details to the MFI.</p> <p>7 – The MFIs issue a letter of advice to the bank to disburse the loan amount instead of cheque.</p> <p>8 – The MFI send a text message to the client that the loan amount has been disbursed to his/her bank account.</p> <p>9 – The client gets the loan amount from her/his own bank account.</p>
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As reflected above, the MFI had to facilitate for its clients to open their Bank Accounts in the Bank of Baghdad (BoB) branches which infact took a bit of time and in the process delayed the loan disbursement. Just to mention over, it was not mandatory under Scenario-I as explained earlier by BoB. However, later it was made compulsory for each Client to have an account in the bank prior to loan disbursement through mobile-banking channel. Of course, it was done for the first disbursement and as such the same accounts would be used for all the subsequent transactions that might take place in future. Having completed the above process, the MFI made the actual disbursements. Following is list of the borrowers who availed loans from Al Bashaer MFI through Bank of Baghdad mobile banking product called Mobicash:

List of Clients received their Loans through mobile-banking in Iraq

No.	Name of the Client	Loan Amount	Type of Business	Name of BOB Branch
1	Amjad Rahman Moussa	\$ 772.50	Service	Al-Mansoor Branch
2	Muhanad Shehab Khudor	\$ 1122.50	Service	Al-Mansoor Branch
3	Adnan Mankhy Jaber	\$ 1,560	Service	Al-Mansoor Branch
4	Haydar Mezher mohammed	\$ 2,025	Service	Al-Mansoor Branch
5	Ashwaq Hussein Mohammed	\$ 1122.50	Service	Al-Mansoor Branch
6	Ziena Mohammed Kareem	\$ 1,035	Trade	Al-Mansoor Branch
7	Ali Hussein Aziz	\$ 3,505	Trade	Al-Mansoor Branch
8	Ahmad Khalil Ghadban	\$ 2,610	Trade	Al-Mansoor Branch
9	Falah Maajoon Swady	\$ 2,535	Service	Al-Mansoor Branch
10	Firas Abdel-Kareem Mohammed	\$ 2,535	Trade	Al-Mansoor Branch
11	Mariam Saheb Jabbar	\$ 2,025	Service	Al-Mansoor Branch
12	Wissam Ali Hussein	\$ 1,515	Trade	Al-Mansoor Branch

13	Jenan Hassan Hussein	\$ 1,122.50	Service	Al-Mansoor Branch
14	Basem Jamal Abed Allah	\$ 1,122.50	Service	Al-Mansoor Branch
15	Haydar Malek Dawood	\$ 1,297.50	Trade	Al-Mansoor Branch
16	Alaa Jaber Esa	\$ 1,735	Trade	Al-Mansoor Branch
17	Basem Mohammad Hassan	\$ 2,610	Service	Al-Mansoor Branch
18	Kaes Naje Abed Al Zahra	\$ 3,505	Service	Al-Mansoor Branch
19	Amal Yousif Mohammad	\$ 2,535	Service	Al-Mansoor Branch

8.3.2. LOAN REPAYMENT BY CLIENTS TO THE MFI: AL-BASHAER:

Advised by the MFI the clients those who received the loans through the mobile-banking tried to make their repayments to Al-Bashaer through the same channel. While some of them were able to do that by depositing the installments in their respective bank accounts, others preferred to visit the MFI office to complete the repayments as scheduled. The main reason was their confusion whether to deposit in their own accounts or in the MFI accounts. Also there was a kind of apprehension among some Clients that their loans might be put in the Arrears list and the MFI would ask penalty fee on that. Because of that most of the Clients repeatedly contacted the MFIs' office to make sure that their loan installments were already paid-off. Interestingly many of them preferred to repay their loan installments in the MFI office in person instead of doing that through the Bank.

8.4. FEEDBACK SO FAR ON THE MOBILE BANKING PILOT INITIATIVE:

One of the key activities in the pilot phase of the mobile-banking was to observe closely the processes and document the experiences. Simultaneously implementing the pilot initiative, Al-Bashaer has been recording these experiences. Following were some of the observations that MFI already noticed in the process:

- The understanding level of the MFI staffs and the clients on mobile-banking got enhanced during this short span of the time
- Access to the 'savings' or 'deposits' facilities available in the formal financial institutions/banks has been initiated for the clients.
- As a new initiative, mobile-banking has been able to generate quite a lot of interest and excitement among the staffs and the stakeholders of the MFI. Al-Bashaer could disburse the loans to majority of the selected clients (19) through mobile banking.
- However, the initial experience on these transactions has not been so encouraging. Feedback on this showed that the time to service delivery (loans), especially loan processing has been in fact increased instead of getting reduced as envisaged in start of the pilot.
- The documentation has also increased in terms of informing the bank about the beneficiaries (clients in the mobile banking pilot) through a memo or email.
- Communication time has also increased in inquiring whether the loan amount has been transferred to the client's account or not, and informing the client that the loan amount

has been transferred to his/her account and they can withdraw it. So also clients' feel speculative about their repayments to the MFI through the bank accounts.

- The loan processing steps and time has been increased compared to traditional service delivery method.
- The staff and clients have been facing inconvenience caused by prolonged processing time and frequency of communication.
- The facility to avail the mobile banking is limited to the designated branches of Bank of Baghdad. The clients in other than designated areas can't avail this facility.
- There is no response/contact with Amwal Electronics Services, one of the major stakeholders in this initiative.
- The MobiCash is only a means of communication and balance enquiry tool for the microfinance clients.
- The method hasn't added value to the clients and MFI so far due to lack of service features and support infrastructure to deliver real benefits of the mobile banking.

8.5. WAY FORWARD AND RECOMMENDATIONS:

It is understood from the feedback received so far that the results of the mobile-banking has not been entirely in line with the envisaged outcomes of the pilot. As shared by the MFI and the clients, their experiences with mobile-bank have not been very encouraging till now. Some of the key envisioned benefits like reduction of time and cost for the MFI, better and convenient services for the clients, expanded outreach in clientele etc. have not been realized yet. Contrary to that the service delivery time in terms of loan processing and disbursement got increased, mainly in meeting the required compliances in the process, including opening the bank account for each client. Based on the above results, USAID-Tijara recommends the following:

- **Support Infrastructure:** A well developed supportive infrastructure is considered to be the key for the successful implementation of mobile-banking in any country. Extensive and effective mobile network, dedicated MNO, fast internet connectivity etc which play pivotal roles in the mobile-banking are perhaps still lacking in Iraq, especially in the rural areas. Even in the city of Baghdad the slow and poor internet connectivity as experienced periodically by the BoB has been one of the constraints for it in getting the loan disbursement advisory from MFI and transfer the amounts to clients.
- **Role of MNOs and Agents Network:** A critical mass of agent's network that attracts larger number of clients to avail the mobile-banking service is not yet created by the mobile network operators. Amwal which was supposed to create this network has not been able to establish that for the microfinance clients. Lack of business proposition in the sector for Amwal might be one of the reasons in this regard.
- **Bank Branches Network:** Currently, Bank of Baghdad has mobile banking facility at its branch in Al Mansoor. It has been proved to be limiting factor for the clients to avail the MOBI CASH services of the bank. This situation clearly shows that the clients on other areas of Baghdad can't benefit this alternative delivery channel to overcome communication and logistic problems to access to financial services. The Bank of Baghdad should push the frontier of mobile banking services to all of its branches in Baghdad enabling clients to access to quality financial services.
- **Client Centric Services Delivery Mechanism:** There is a greater need to strengthen the backward and forward linkages where the role of intermediaries are extremely

important, be it technology service providers, MFIs, Network Agents, or the Banks. All these stakeholders need to work in close collaboration to make this technology pro-poor, cost effective and user-friendly so that the microfinance clients can be able to use mobile-banking in an efficient manner to reduce their drudgery. All these stakeholders should ensure client's education on these products and services so that better understanding should lead to depth of outreach.

- **Critical Client Mass for Scalability:** Scale and volumes of customers to use the mobile-banking facility largely determine the feasibility of the service. All the service providers expect both of these, from the business point of view, to plan and offer continued services to clients. At the moment perhaps it does not look so promising for the service providers as the number of potential clients in the microfinance sector has been at a very low level
- **Enabling Legal and Regulatory:** A significant number of restrictions and gaps in the regulatory framework will need to be addressed to ensure that agent-assisted branchless banking is legal and that it addresses all significant risks to providers, consumers, the payment system, and the financial system as a whole.

As figure below graphically depicts, m-banking sits at the intersection of a number of important policy issues. Each issue is complex in its own right, and is often associated with a different regulatory domain: as many as five regulators (bank supervisor, payment regulator, telco regulator, competition regulator, anti-money laundering authority) may be involved in crafting policy and regulations which affect this sector. Therefore, coordinated efforts of the players and stakeholder in mobile banking are required to create an enabling environment for this form of services delivery channel to thrive in Iraq.

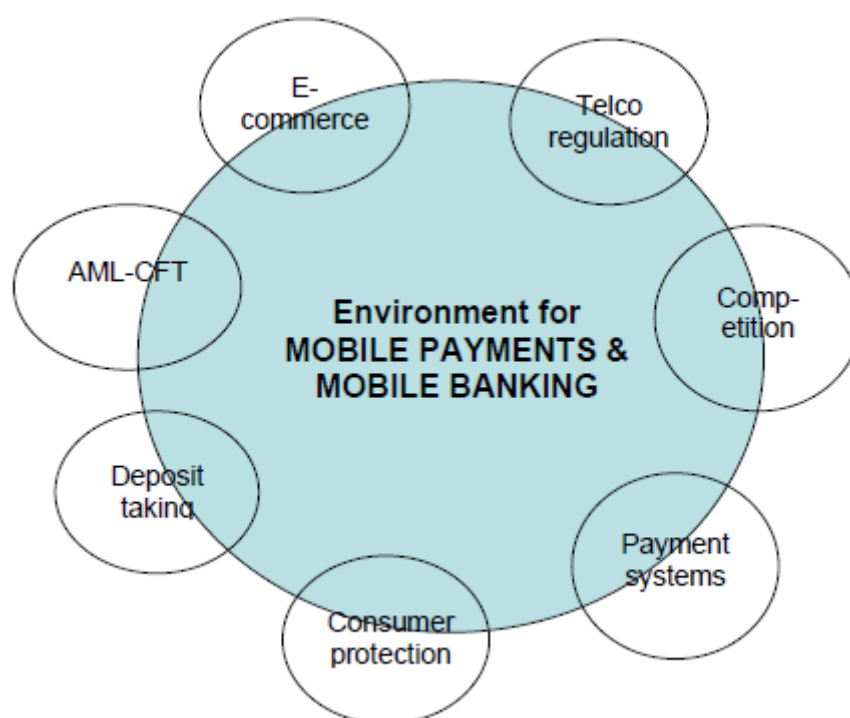


Figure 3: Overlapping Domains for an Enabling Environment

- **Institutional Capacity Building of the MFI Sector:** Building the institutional capacity of MFIs who target low-income customers will also help to ensure that branchless banking achieves its full potential once operational. Unless MFI capacity is improved, it is not recommended to permit MFIs to either use retail agents to expand access to finance or to act as retail agents on behalf of banks or MNOs. However, if sufficient institutional capacity is proven, there is also possibility to accept voluntary savings from clients and deposit these funds in a pooled bank account in the MFI's name. This would be an important first step towards full mobilization and intermediation of voluntary savings, which MFIs view as critical to meeting the needs of low-income Iraqis.
- **Product Design and Methodology Constraints that Currently Limit Financial Access:** While the issues of product design and methodology are ostensibly outside of the scope of this study, the success of mobile-banking as a delivery mechanism will invariably depend in large part upon the ability of banks, MFIs, MNOs, and other stakeholders to design appropriate products, establish key partnerships, and provide clients with incentives to repay microloans. By addressing product design/methodology issues now, providers and customers will be able to take full advantage of mobile banking delivery channels once the necessary macro- and meso-level infrastructure for mobile banking is put in place.

Despite the above mentioned challenges and proposed recommendations, mobile-banking as an alternative service delivery channel has made an entry in the microfinance sector of Iraq. The initial knowledge and understanding on mobile-banking has been acquired by the MFI and its staffs. The stakeholders involved in it too started realizing the issues and challenges in the process and that creates a scope for them to work on it further. This pilot has documented lessons learned for future interventions in mobile banking for Iraqi microfinance sector.